

VZCZCXRO4677
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHSA #4123/01 3391232
ZNR UUUUU ZZH
R 051232Z DEC 07
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 2884
INFO RUCPDC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0710
RUEHRL/AMEMBASSY BERLIN 0573
RUEHBY/AMEMBASSY CANBERRA 0590
RUEHJA/AMEMBASSY JAKARTA 0163
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UNCLAS SECTION 01 OF 02 PRETORIA 004123

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DOE FOR T.SPURL, G.PERSON, A.BIENAWSKI, M.SCOTT, L.PARKER

E.O. 12958: N/A
TAGS: [SENV](#) [ENRG](#) [EPET](#) [SF](#)
SUBJECT: Disclosing Carbon Footprints, While Burning Coal

REF: Pretoria 3726

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¶1. SUMMARY: A recent voluntary Carbon Disclosure Project showed that a few companies are responsible for the bulk of South Africa's greenhouse gas emissions, which ranks 14th in world for emissions. The top two emitters, state electricity supplier Eskom and coal-to-liquid (CTL) supplier Sasol, have ambitious plans to reduce their carbon footprints, but face tough challenges in implementing these plans. Eskom is scrambling to meet growing electricity demand in the face of a supply shortfall and will increase combustion of dirty coal, before shifting reliance longer-term on alternatives, like nuclear. Sasol's plans to reduce emissions are almost entirely based on carbon sequestration, but there are few suitable geological formations in South Africa where this can be done. The SAG plans to engage business to fashion a long-term climate policy over the next two years. End Summary.

Who's the Dirtiest of Them All? Firms Disclose Carbon

¶2. South Africa's first voluntary Carbon Disclosure Project (CDP) showed that the country's carbon emissions were dominated by a few major players. State-owned power utility Eskom, which participated voluntarily in the project for Johannesburg Stock Exchange-listed companies, emitted 208 million metric tons of methane and carbon dioxide in 2006, 40.5 per cent of South Africa's total and 2.8 times number two emitter Sasol (71 million tons emissions). Sasol is the world's largest single-point emitter of greenhouse gases (Ref). Mining companies BHP Billiton and Anglo-American closely followed Sasol in the ranking. South Africa's response rate for the CDP was 75 percent, much higher than many other countries. Telkom, Arcelor Mittal Steel SA, and Kumba Iron Ore were among companies that elected not to participate in the survey or project.

Pressure to Go Green

¶3. Environmental Affairs & Tourism Minister Marthinus van Schalkwyk announced: "Business can assume that government will increasingly

assess, monitor, and regulate greenhouse gas emissions. It can also assume that there will be a much stricter regulatory framework and a hefty price on carbon." Van Schalkwyk made his comments on the eve of his departure to Bali for the UN Climate Change Conference 2007. Observers expect South Africa to come under some pressure to reduce its emissions - at more than 440 million tons of CO2 per year, it is the largest polluter in Africa and the 14th largest greenhouse gas emitter in the world. South Africa is a signatory to the Kyoto Treaty, but faces no obligations as a developing country. Van Schalkwyk briefed business leaders on the outcome of a study on long-term mitigation scenarios for climate change. This aims to foster debate on the way forward between government and business and inform the preparation of a long-term climate policy in 2008/2009.

¶4. Department of Environmental Affairs & Tourism Chief Director: Air Quality and Climate Change Peter Lukey stated that his Minister was committed to South Africa's taking real steps to mitigate climate change, noting that Africa will be a potential victim of climate change. Lukey spoke at the November 28 South African Institute of International Affairs-sponsored conference entitled "The Second Scramble for Africa - Lifting the Resource Curse". Lukey underscored the messages from the United Nations Inter-governmental Panel on Climate Change (IPCC): Measurable climate change is human-induced and will continue and we collectively have to take steps to mitigate climate change and adapt now. He called for South Africa to take a leadership role in implementing new carbon-friendly, energy-efficient technologies, rather than waiting to follow the "north".

Eskom Stuck Between a Rock and a Hard Place

¶5. Eskom faces pressure to quickly overcome a shortage in electricity supply for South Africa's booming economy. In the short term, it will refurbish and build more coal-fired plants, increasing

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its over-whelming reliance on coal. In the longer term, the company aims to reduce its reliance on coal to 70 percent by 2025, by significantly expanding its number of nuclear power plants. Taking advantage of lax environmental laws, and in the interest of saving time and money, Eskom will not be installing Flue Gas Desulphurization (FGD) to control harmful emissions at the Medupi Power Station, under construction in Limpopo. Eskom defends itself by noting the lack of government regulation on SOX and citing the additional cost of using FGD technology.

Sasol with Limited Options

¶6. Sasol has identified global climate change as a "principal strategic challenge" in its ability to deploy coal- and gas-to-liquid technologies globally, according to group environment expert Fred Goede (Sasol's representative on the IPCC). His statement accompanied the release of Sasol's 2007 sustainable development report, accompanied by an "environmental road-map for the next 15 years, giving particular attention to greenhouse gas and water management. Sasol is looking to increase its investment in CTL in South Africa, the United States, China, and elsewhere, but it is under pressure to implement carbon-capture technologies and suitable storage solutions. Sasol executives underscored the company's commitment to researching and developing these technologies at a workshop it hosted at the U.S.-Africa Business Summit held in Cape Town November 14-16. Sasol officers echo the corporate commitment, but admit that South Africa's geology does not lend itself to easy carbon capture solutions (Ref). On the margins of the Cape Town Summit, Sasol executives told Assistant USTR Florie Liser that the company had voluntarily implemented process changes to reduce harmful emissions despite minimal government regulations. In recent press reports, environmentalist activists and some Sasol share-holders criticized Sasol for focusing only on carbon sequestration, setting the bar too low, and failing to achieve past targets.

17. COMMENT: Corporate and government responsibility for mitigating carbon footprints is being actively debated in the South African press and other fora. In the lead up to the Bali Conference on Climate Change, the debate has been constructive in that it recognizes the need for a post-Kyoto multi-lateral arrangement that includes the U.S. South Africa wants to maintain its economic growth and recognizes the environmental impact that growth has on climate change. Moreover, environmentalists are criticizing South African companies like Eskom and Sasol for not doing much to mitigate other emissions like SOX and NOX, as well as criticizing the government for not establishing regulations and standards for these emissions. Anyone driving through the Gauteng Province around Johannesburg and Pretoria will notice lots of Eskom smoke-stacks with little apparent effort to control the visible emissions.

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